Beneficial Corporation

Annual Report 1986

A year of transition

Financial Highlights

Years Ended December 31 (in millions)	1986	1985	1984	% Increase (Decrease) 1986 over 1985	% Increase (Decrease) 1985 over 1984
Net Income (Loss)					
Income From Continuing Operations	$ 88.1	$ 73.3	$ 83.7	20.2	(12.4)
Income (Loss) From Discontinued Operations	(279.1)	27.9	22.6	–	23.5
Cumulative Effect of Accounting Change	19.4	–	–	–	–
Net Income (Loss)	(171.6)	101.2	106.3	–	(4.8)
Earnings (Loss) Per Common Share					
Continuing Operations	3.25	2.56	3.00	27.0	(14.7)
Discontinued Operations	(12.41)	1.26	1.02	–	23.5
Cumulative Effect of Accounting Change	.86	–	–	–	–
Net Income (Loss)	(8.30)	3.82	4.02	–	(5.0)
Dividends Per Common Share	2.00	2.00	2.00	–	–
Revenue	1,134.1	1,118.2	1,103.2	1.4	1.4
Shareholders' Equity at End of Year*	808.1	1,042.0	992.8	(22.4)	5.0
Principal of Finance Receivables**	5,540.6	4,988.9	4,549.5	11.1	9.7
Average Account Balance**	3,336	3,097	2,985	7.7	3.8
Reserve for Credit Losses as % of Principal of Finance Receivables**	3.70%	4.03%	4.15%	(8.2)	(2.9)

*Includes redeemable preferred stock.
**At end of year.

To Our Shareholders

Nineteen eighty six was a year of great challenge for Beneficial. During much of the second half of the year, management dedicated itself to exploring a variety of alternatives focused on maximizing shareholder value. The resulting decision to restructure Beneficial Corporation, directing our management attention and corporate resources toward consumer lending, expresses our confidence in the continued strength and profitability of our core consumer lending operation. Our consumer finance business has traditionally offered the greatest return on shareholders' equity and corporate assets employed. Beneficial is a major force in the consumer finance industry with the competitive strengths to assure its continued success.

We are pleased to announce a 20% increase in net income from continuing operations for the year. Earnings totalled $88.1 million for 1986, up from the prior year level of $73.3 million. An excellent gain of 12% in receivables was achieved during the year, attesting to the strength and inherent value of our loan office distribution network. Internal growth prospects for the future appear excellent. We will continue to enhance the effectiveness of this distribution system, exploring areas of the operations where efficiencies can be derived, examining geographic markets both for expansion and withdrawal, while continually striving to improve service to our customers as we take advantage of an ever-changing marketplace.

Overall results for the year were quite disappointing because of large charges taken for estimated losses on disposal of discontinued operations and, additionally, due to operating losses reported by our discontinued property and casualty insurance operations. For the year, Beneficial reported a net loss of $171.6 million, compared to prior year income of $101.2 million. Included in the results are total net losses from discontinued operations of $279.1 million for 1986 versus net income from discontinued operations for 1985 of $27.9 million.

We are pleased with the rapid progress of our restructuring plan. Definitive agreements have been reached for the sale of all major subsidiaries to be divested. Significant expense reductions have already occurred. To help you better understand the circumstances that led up to our restructuring, as well as details associated with our plan and the outlook for the future, we have included a "Question and Answer" section directly following this letter.

Our significantly narrowed strategy, focused on our traditional business and traditional distribution channel, will enable us to continue to effectively compete in today's more complex marketplace. We retain all of our competitive strengths and will have the financial resources necessary to remain competitive in our market niche. Our product is money. Our strength is responsive and caring service. We have the ability to understand each customer's individual needs because of our "face-to-face" approach to consumer lending. We feel that there is, and will continue to be, a tremendous need for personal contact in consumer lending.

We will continue to support our sales force with state of the art data processing systems. These systems will be used not only to develop new products demanded by the marketplace but, additionally, to increase efficiency of our headquarters and branch offices, allowing all personnel more time to focus on customer needs.

Our narrowed strategy, caring service, advanced systems, and experienced employees are the necessary ingredients to be successful in our chosen market, today and in the future. We thank you, our shareholders and our dedicated employees, for your support during this difficult year of transition, and will work hard to earn your continued support.

Finn M. W. Caspersen

Chairman of the Board
and Chief Executive Officer

An Interview with Finn M. W. Caspersen

Q *On August 21, 1986, you announced plans for evaluation of alternatives to maximize shareholder value, including the potential sale, merger, liquidation, or the restructuring of the company. What led you to this decision?*

A Management at Beneficial has always believed that our first and foremost duty is to maximize shareholder value. In late July, we discovered that a corporation was accumulating Beneficial common stock and had made a Hart-Scott-Rodino filing indicating a possible intention to acquire significant further amounts of shares. Management and the Board of Directors felt that these moves might lead to an acquisition of Beneficial at too low a price, then $44 per share. At the same time, Beneficial management was reviewing both the possibility of making a large addition to reinsurance reserves and taking various restructuring steps. Accordingly, Beneficial announced that it was considering these options in order to allow our shareholders to have all of the facts at their disposal before making a decision to buy or sell.

Q *There have been reports that there was a $75 per share offer for Beneficial. Are they accurate?*

A A proposal was made at this level but was contingent upon, among other significant factors, the retention by Beneficial of its property and casualty subsidiaries, plus other existing liabilities equivalent to $3 or more per share and an escrow of $400 million (over $17 per share) for an indeterminate period of time for potential tax liabilities arising from the transaction. The Board of Directors believed and continues to believe that a transaction in this format was not in the best interests of the shareholders.

Q *Why were there no satisfactory bids for the entire corporation?*

A Obviously, the reinsurance business concerned potential buyers. Beneficial was an extremely complex company with different financial services businesses involving different target customers and different distribution systems. Certain businesses were attractive to certain buyers, but others were not for strategic or regulatory reasons. Accordingly, no satisfactory price for the shareholders could have been realized by an overall sale.

Q *You ultimately chose restructuring as the best course of action for Beneficial to pursue. What will the restructuring entail?*

A We will concentrate on our basic business, consumer finance. This is and always has been our most profitable business. We plan to sell all businesses not directly associated with or complementary to our consumer finance operations, sell or joint venture investment real estate, reduce administrative expenses, and repurchase debt and possibly equity securities.

Q *How is the restructuring progressing?*

A To date we have reached agreement to sell Beneficial National Bank USA, our credit card operation, to First Chicago Corporation for $247 million plus income earned by the unit from November 1 to closing. In addition, First Chicago will repay approximately $650 million in intercompany debt. We have signed a definitive agreement to sell Western National Life to Conseco, inc., of Carmel, Indiana, for $275 million. Importantly, an agreement has been reached to sell our property and casualty insurance operations, including American Centennial Insurance Company, our United Kingdom-based credit insurance businesses, and other

international property and casualty insurance operations located in Bermuda, to a management group led by the Chief Financial Officer of Beneficial Insurance Group. Beneficial will receive $10 million at closing and notes with a face amount of approximately $99 million, the realization of which is substantially dependent on the future performance of the insurance companies, but also with upside potential should American Centennial be very profitable in the future. All of the sales that I've just mentioned are subject to approvals by the appropriate regulatory bodies, which are expected this year. The Company also accomplished the sale of approximately $84 million of loans, constituting the major portion of the commercial loan portfolio of Beneficial Business Credit Corporation, to Chrysler First Business Credit Corporation, a subsidiary of Chrysler First Inc.

We also plan to sell Northwestern Security Life, a small credit insurance underwriter. We will retain ownership of our other credit life insurance company, Central National Life, which underwrites credit life insurance for our consumer loan operations in the U.S. Retention of this business will enhance the profitability of the restructured corporation. We will dramatically reduce the writing of outside credit insurance through this subsidiary, and will take significant cash dividends out of the company to bring its capitalization into line with its reduced premium writings.

The sale of Beneficial's leasing portfolio is also being investigated.

Investment real estate will be sold or joint ventured over time, as appropriate. An important real estate asset being so considered is approximately 800 acres of prime real estate surrounding our Peapack, New Jersey office complex. We will also explore joint venture opportunities for continued development of our Harbour Island property in Tampa, Florida. The remaining two significant real estate exposures, Imperial Plaza, an improved but undeveloped industrial property in Houston, and the Claridge, a luxury condominium project in Dallas, will be disposed of as soon as practical consonant with maximization of price.

Q ***What about overall expense reduction?***

A Encouraging progress has been made in our plan to cut overhead expenses related to our ongoing operations. This will occur primarily through reduction in headquarters personnel but will additionally entail tightening our belts in all areas of the remaining businesses. With proceeds from the sales of businesses, we plan to chiefly reduce debt and fund growth of our consumer finance business. We expect the entire restructuring to be completed no later than year-end 1987.

Q ***Is the restructuring expected to impact Beneficial's credit rating?***

A The uncertainty surrounding the restructuring and the magnitude of our year-end loss prompted the rating agencies to lower the credit ratings on our senior debt. One of our objectives in restructuring the capital of the Company is to improve our credit ratings. Accordingly, we will utilize proceeds from the restructuring primarily to reduce debt, striving to structure a strong capital base. Additionally, the restructuring should result in a more consistent future earnings pattern, which is of prime importance to the rating firms and to our institutional lenders. We feel that this focus best serves the long-term interests of the business.

Q ***With the sale of many of Beneficial's financial services units, you will have to narrow your focus. What will be your strategy?***

A Beneficial will continue to concentrate on the direct delivery of consumer financial services. Our offices and our on-line computer network are our delivery system. We will continue to deliver insurance products, but only those salable through our offices. We will further expand our loan products and become more aggressive in the first mortgage field, as we originate first mortgages in our offices and then pass them through to investors. In

addition, we will continue to experiment with consumer liability products in our Beneficial Savings Bank operations.

Q ***What is the outlook for the restructured company? Is Beneficial strategically well-positioned?***

A The outlook is excellent. We expect to be on a much more solid financial footing going forward since our balance sheet will be stronger and earnings will be more predictable. As I mentioned earlier, this should ultimately lead to the availability of relatively less expensive funding, allowing us to offer our customers ever more competitively priced products.

We are a dominant player in the finance company marketplace and we continue to be excellently positioned in this niche. Demographic trends related to our chosen market segment are highly positive in the future. We have not given up any of our strengths, particularly our key one—our loan office distribution network—which enables us to deliver very personal "face-to-face" service to our customers. The companies that we sold or plan to sell have very different distribution systems. We will continue to leverage our loan office

network, not however through our own vertical integration, but through the sale of products produced by others.

Q ***Will the Company make any acquisitions to complement its renewed focus on its core finance business?***

A No major acquisitions are contemplated. There may be small acquisitions made that will enhance our distribution system and we will, as we always have, continue to be interested in the acquisition of consumer loan portfolios. We believe, however, that internal growth offers the best opportunity and return on the investment of our capital. Our ability to accomplish exceptional growth, internally, is clearly demonstrated by our $581 million in receivables gains achieved in 1986.

Q ***Is Beneficial preparing itself to be taken over?***

A Absolutely not! While we would view any offer in the light of what is in the best interests of our shareholders, the potential for future growth and future profitability, as an independent company, are excellent. We are in the process of shedding our less profitable subsidiaries and have retained only our most profitable ones. Headquarters costs have been cut significantly and will be cut further. Our major problems are being solved. Management, as significant shareholders, firmly believes that the restructuring that we are now completing will result in both short- and long-term maximization of shareholder value.

Review of Fourth Quarter Results

Beneficial Corporation's fourth quarter earnings from continuing operations increased 19% to \$18.3 million from a restated \$15.4 million for 1985. Related earnings per share for the quarter were \$0.65 compared to prior year earnings of \$0.51 per share, an increase of 27%.

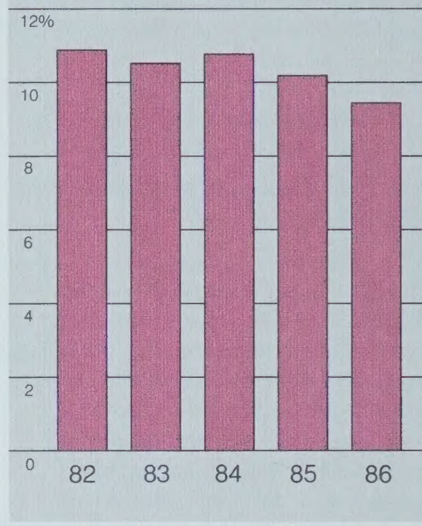
During the quarter, the Corporation adopted a plan to restructure its business. The restructuring centers on retention of the extremely profitable consumer finance operation and the building of a strong balance sheet to move the Company forward. To accomplish this goal, Beneficial National Bank USA, the credit card operation; Beneficial Business Credit Corporation, the Company's small business lending arm; and the life and property and casualty insurance companies will be divested. Beneficial Corporation will, however, retain Central National Life, which writes credit insurance for the Company's nationwide consumer finance operations. Beneficial's real estate investments will be sold or joint ventured. Results of operations have been restated to reflect these changes. Those businesses in the process of being divested are now classified as discontinued operations. The anticipated net loss associated with the divestitures, as well as restructuring costs related to continuing operations, are included in fourth quarter results.

Strong receivables growth (a gain of \$278 million) occurred in the fourth quarter, with increases primarily in revolving real estate secured receivables. This exceptional growth produced a temporary drain on profitability since a substantial up-front reserve provision is required. Included in the results are a \$10.2 million pre-tax charge for restructuring costs associated with continuing operations and a \$10.7 million after-tax net credit related to the impact of the Tax Reform Act on leveraged leases. All corporate administrative and interest costs are now borne by the core business. In addition, interest previously attributed to the now discontinued insurance operations is absorbed by the consumer lending business. The sum of these costs totalled \$38.1 million net after-tax in 1985. The remaining business will therefore benefit in the coming year from the overhead reduction plans related to the Company's restructuring efforts. Further, continuing operations will realize a reduction in interest cost, as a major portion of the proceeds from sales of discontinued operations will be used to reduce debt.

Credit quality of the loan portfolio continues to be excellent. Delinquency measures improved from both the prior quarter and prior year levels. Net chargeoffs, however, increased somewhat.

Beneficial Corporation reported an overall net loss of \$103.7 million, or \$4.72 per share, down from 1985 fourth quarter net income of \$24.8 million, or \$0.93 per share. Included in 1986 results is a \$19.4 million after-tax benefit from the cumulative effect of an accounting change in the recognition of finance revenues from a cash collected to an accrual basis, thereby bringing Beneficial's accounting treatment into line with most other consumer lenders. In addition, 1986 fourth quarter results include a net loss from discontinued operations of \$9.6 million and a loss on disposal of \$131.8 million, compared to prior year earnings from discontinued operations of \$9.4 million.

Average Worldwide Cost of Funds (%)



Financing

Domestic and international debt markets were receptive to borrowers during 1986 as a result of the continued decline in interest rates and the further development of new financing techniques. Early in 1986, the Company completed a nine year issue of Japanese Yen denominated bonds sold in the European market through a syndicate led by a major Japanese investment bank. The cash flows related to this obligation were swapped into dollars thereby eliminating any associated foreign exchange exposure. The 10 billion yen borrowing was converted into approximately \$52 million. On a semi-annual bond equivalent basis, the yield on this issue was 9.55%, a very narrow 30 basis point spread over the benchmark US Treasury obligation.

During the first quarter, Beneficial also sold to the public two note issues totalling $225 million, each taken down under separate $500 million Rule 415 shelf registration filings. The average interest rate on these notes was 8.37%. Additionally, Beneficial entered into an interest rate exchange agreement, effectively converting $100 million of fixed-rate 8.04% five year notes to a floating rate obligation, with the interest rate pegged to a commercial paper index. This resulted in providing long-term floating rate funds to the Company at the lowest available cost.

The embedded cost of long-term debt declined 28 basis points to 9.93% from the prior year level of 10.21%. During the year the Company repaid $205.3 million in maturing debt, with an average rate of 12.01%, and called, for early redemption, a total of $383.2 million in debt, with an average rate of 9.96%. In addition, the Company issued $322.2 million in new long-term debt at an average rate of 8.83%. Long-term debt, of which $316.0 million is floating rate, now totals $3.7 billion, 62% of the funding base.

In recent years, Beneficial's policy has been to "match fund", to the extent possible, interest-sensitive assets, primarily variable-rate revolving loans, with interest-sensitive liabilities. The growing importance of variable-rate loan products originated by the consumer finance office network, now totalling $1,149.5 million, has resulted in the Company shifting its borrowing requirements slightly more to the interest-sensitive market in order to maintain appropriate matching. In addition, during much of the second half, Beneficial did not issue long-term debt due to the uncertainty surrounding its intention to sell, merge or restructure the Company. Consequently, as can be seen from the chart below, Beneficial's funding base was weighted more towards interest-sensitive debt, particularly short-term, during 1986 than in the prior year period.

Beneficial's cost of short-term debt, including the cost of maintaining bank lines, for 1986 was 7.40%, down 177 basis points from 9.17% in 1985. The preponderance of short-term borrowings are funded through Beneficial's direct issue commercial paper program. At year-end 1986, commercial paper outstandings totalled $1,653.4 million representing 27.8% of the funding base, compared to $1,054.8 million and 19.6% of the funding base at year-end 1985. To support its commercial paper program, Beneficial maintains bank lines of credit and committed revolving credit facilities with major banking institutions throughout the country. At year end, unused credit facilities totalled $1,645.6 million and were approximately 100% of the dollar amount of commercial paper outstanding. Beneficial intends to maintain supporting bank lines at 100% of the commercial paper outstanding during 1987.

The Company arranged a $300 million Eurodollar borrowing agreement with fifteen major European and Japanese banking institutions in February 1986. The lenders have extended a commitment for five years, on a revolving basis, with loan advances offered at a slight margin over the cost of London inter-bank dollar deposits for periods ranging from one to six months. This floating-rate term facility functions as a supplement to domestic bank line support for the Company's commercial paper program, as well as a direct borrowing source.

Consumer deposits, which had increased in importance as a source of funds during recent years, will decline in significance from previously reported levels as a result of the announced sale of Beneficial National Bank USA (BNB USA), the credit card operation. BNB USA had $431.9 million in deposits payable at year end. Balances existing in continuing operations at year end totalled $158.1 million. Beneficial will main-

Funding Base

(in millions)	12/31/86	% of Total	12/31/85	% of Total
Short-Term Debt				
U.S. Currency	$1,915.0	32.2%	$1,093.3	20.3%
Foreign Currencies	188.0	3.2	152.0	2.8
Total Short-Term Debt	2,103.0	35.4	1,245.3	23.1
Deposits Payable	158.1	2.7	234.1	4.3
Long-Term Debt	3,678.8	61.9	3,908.6	72.6
Funding Base	$5,939.9	100.0%	$5,388.0	100.0%

tain the capability to acquire FDIC insured deposits through Beneficial Savings Bank, FSB, the Company's federal savings bank operation located in Florida, as well as source deposits through industrial savings banks located in Colorado and trust and savings operations in the United Kingdom.

During 1986, Beneficial's worldwide melded average borrowing cost, including bank line and revolving credit commitment fees, declined to 9.44% from 10.19% in 1985. Beneficial's average quarterly borrowing cost for all debt for 1986 and the prior four years is presented in the table below. The Company's interest-sensitive debt, which is predominately short-term, was impacted by the decline in short-term market rates that occurred from January through September. Overall long-term fixed-rate debt interest cost continued its gradual decline, begun in 1984, as a result of maturity payments, call options exercised, and the placement of new fixed-rate issues at lower coupons. Beneficial's average cost of funds has declined gradually since the third quarter of 1984. Further declines are anticipated in 1987, barring a sharp up-tick in short-term interest rates.

Included in the determination of melded cost on average outstanding debt are higher cost foreign currency borrowings, in particular Canadian dollars. Excluding foreign borrowings, the cost of U.S. dollar debt for 1986 was 9.40%, down from the prior year level of 9.66%.

Beneficial's announcement in late August to sell, merge, or restructure the Company and its decision to add substantial additional reserves against future reinsurance losses resulted in the Company's debt being placed on Creditwatch status by Standard & Poor's Corporation and by Duff & Phelps, Inc. pending review of the development and implementation of a restructuring plan. Subsequently, Standard & Poor's downgraded the Company's commercial paper rating from A-1 to A-2 and long-term debt rating from A to A- and Duff & Phelps downgraded the Company's commercial paper from Duff 1 to Duff 1- and long-term senior debt from 6 to 7. Moody's Investors Service reduced the Company's commercial paper rating from P1 to P2 and the rating on senior term debt from A3 to Baa1 and, subsequently, to Baa2, due to the magnitude of Beneficial's 1986 losses from write-downs of discontinued businesses.

These circumstances resulted in a marginal increase in the cost of placing commercial paper. The Company's intention is to utilize almost all of the estimated $1.1 billion net proceeds to be received from asset sales to reduce debt and to fund growth in the consumer finance business. About $750 million of the proceeds represent repayment of intercompany debt to Beneficial, on which interest has been reimbursed by the discontinued operations. This will achieve the appropriate leverage for the restructured corporation, as well as better match assets and liabilities through the reduction of outstanding commercial paper and the possible repurchase of selected long-term debt issues. Adjustments to the debt structure will focus on improving Beneficial's credit ratings.

Average Cost of Funds

	1986	1985	1984	1983	1982
1st Quarter	**10.02%**	10.49%	10.49%	10.01%	11.29%
2nd Quarter	**9.65**	10.38	10.70	10.03	11.29
3rd Quarter	**9.14**	9.96	10.96	10.27	10.94
4th Quarter	**9.02**	9.95	10.75	10.30	10.48
Full Year	**9.44%**	10.19%	10.73%	10.16%	10.88%

Review of 1986 Earnings

In 1986, net income from continuing operations increased 20% to $88.1 million from a restated $73.3 million for 1985. The record performance was a result of excellent receivables growth and continuing good credit quality. For 1986, Beneficial Corporation reported a net loss of $171.6 million, or $8.30 per share. This compares to net income of $101.2 million and $3.82 per share for the prior year.

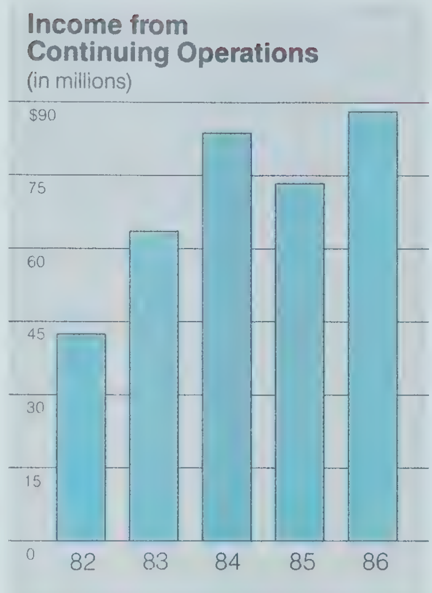
The 1986 results include the aforementioned income from continuing operations, a $19.4 million benefit for the cumulative effect of a change in accounting principle, and loss from discontinued operations of $279.1 million. Beneficial's 1986

loss exceeded its ability to utilize the entire loss for tax purposes, creating a net operating loss carryforward of $105 million. The loss carryforward could provide an extraordinary benefit to income of as much as $42 million, if utilized in 1987.

In 1985, the sale of Western Auto Supply Company and Subsidiaries, Beneficial's Merchandising Division, was completed. The earnings of this group were reported as discontinued operations, and an after-tax loss on disposal of $7.4 million was recorded in 1985.

Results From Continuing Operations

Beneficial Corporation, with restructuring efforts nearly completed, is now focused on its highly profitable consumer finance business. All results from prior years have been restated to reflect this change. The core of the refocused operation is our network of consumer finance offices located throughout the United States, Canada, and the United Kingdom. Through this distribution system, the Company markets various loan products as well as complementary credit insurance products. Loan products include first and second mortgages, equity lines of credit, and unsecured personal loans. All products are offered on a revolving credit or fixed-term basis. The real estate revolving credit product is generally written on a variable-rate basis while all other products are principally fixed-rate. Sales finance contracts are marketed to customers through retailers and are purchased by local Beneficial offices.



Beneficial operates consumer banking operations in the United Kingdom and West Germany, and a federal savings bank in Florida. These outlets provide consumers with the full range of loan products available at a traditional Beneficial consumer finance office and offer a wide array of deposit products as well.

Also included in continuing operations are the results from Beneficial Mortgage Corporation, our mortgage banking operation; Beneficial National Bank, our full-service commercial bank; Benevest Escrow and Title, a subsidiary that provides escrow and title agency services in California and Florida; Beneficial Commercial Corporation, a leveraged leasing company; and Harbour Island, a real estate development in Tampa, Florida. The sale of Beneficial's leveraged leasing portfolio is being explored, and joint venture opportunities for Harbour Island are being considered.

The table on the following page analyzes profitability dynamics for continuing operations for the past five years, presenting major categories of income and expense as a percentage of the average principal balance of receivables. This table, which is a key analytical tool, illustrates the influences producing profitability trends since 1982. The data has been restated from prior years to reflect a consistent series for Beneficial's continuing operations.

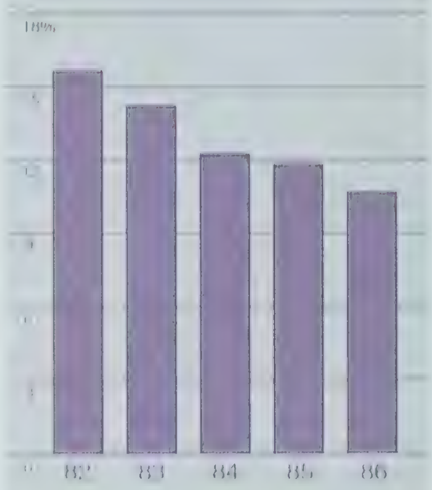
During 1986, total outstandings for continuing operations grew $581 million, or 12%, to reach $5.5 billion. Average receivables for the year were $5,230.6 million, up 11% from the prior year level of $4,696.4 million. Real estate revolving credit accounts were primarily responsible for the growth.

Beneficial's lending spread of 10.24% (roughly equivalent to a bank's net interest margin) was up slightly from 10.20% for 1985. Finance charges and fees as a percentage of average receivables fell 79 basis points to 18.71% from the 1985 level of 19.50%. The decline in finance charges and fees as a percentage of outstandings was due to both a fall in general market rates and an increased level of competition, particularly in real estate secured lending. Also contributing to the decrease was the shift in the portfolio to lower-yielding variable-rate loans. This change was entirely offset by an 83 basis point decline in interest expense as a percentage of mean receivables to 8.47% from 9.30% for the prior year. The decline was a result of reduced market rates and a change in the liability mix to a higher proportion of lower cost short-term debt. Other revenues

declined in 1986 from prior year levels due to lower earnings from Beneficial's U.S. income tax preparation service, which was sold during the 1986 third quarter, and a decline in income from the Company's Canadian income tax discounting service, which was adversely impacted by a change in legislation. In addition, premium revenue as a percentage of average outstandings declined because a large block of annuity business in Central National Life was recaptured by the original ceding company, distorting the year's results. The lower premium level is offset by lower insurance benefit payments, also a result of the recapture. The gross spread declined to 13.22% from 14.51% in 1985.

The provision for credit losses, as a percentage of average receivables, increased marginally in 1986 to 1.23%, from 1.14% in 1985. The change was due to the increased level of chargeoffs in unsecured personal loans and sales finance contracts. In 1986, net chargeoffs were $58.5 million, or 1.05% of average gross receivables, an increase from $42.5 million, or 0.84%, in the prior year. Delinquency statistics improved, however, reflecting the high quality of Beneficial's consumer loan portfolio. The reserve for credit losses was 3.70% of outstandings at December 31, 1986, compared to 4.03% at year-end 1985.

Total Operating Expenses (%)



Profitability Analysis

December 31	1986	1985	1984	1983	1982
Average Receivables (a)	$5,230.6	$4,696.4	$4,527.8	$4,120.1	$4,095.0
% of Average Receivables					
Finance Charges and Fees	18.71%	19.50%	20.03%	20.76%	21.54%
Interest Expense	8.47	9.30	9.65	9.44	10.60
Lending Spread	10.24	10.20	10.38	11.32	10.94
Premium Revenue	1.74	3.03	2.94	4.32	3.78
Other Revenues	1.24	1.28	1.40	0.93	2.68
Gross Spread	13.22	14.51	14.72	16.57	17.40
Insurance Benefits	1.00	2.09	2.20	3.02	4.19
Provision for Credit Losses	1.23	1.14	1.40	2.16	2.66
Salaries & Employee Benefits	3.71	3.79	3.84	4.18	4.22
Other Operating Expenses	4.52	4.79	4.58	4.87	4.59
Provision for Restructuring	0.20				
Total Operating Expenses	10.66	11.81	12.02	14.23	15.66
Operating Income	2.56	2.70	2.70	2.34	1.74
Provision for Taxes	0.88	1.14	0.85	0.80	0.57
Income from Continuing Operations	1.68	1.56	1.85	1.54	1.17

(a) In millions. Net of unearned finance charges.

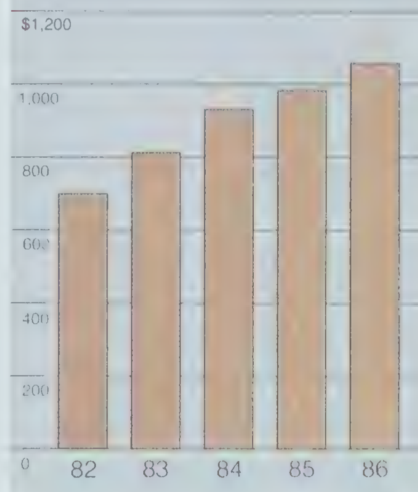
During the last five years, Beneficial has effectively increased its efficiency of operations. In 1986, the operating expense ratio (defined as the sum of salary and benefits and other operating expenses, excluding provision for losses, insurance benefits, and restructuring costs, as a percentage of average receivables) was 8.23% compared to 8.58% in 1985, and nearly 60 basis points lower than 8.81% recorded in 1982. Efficiency has increased because the Corporation took steps beginning in 1981 to eliminate operations that did not meet profitability targets and to consolidate existing operations to capitalize on economies of scale. In addition, Beneficial has experienced good portfolio growth, despite a highly competitive marketplace during the

period, further increasing scale economies. Salaries and employee benefits decreased slightly to 3.71% of average receivables in 1986, from the prior year level of 3.79%. Other operating expenses, including rent, advertising, telephone, depreciation, and all other operating costs, also decreased to 4.52% of average outstandings from 4.79% in 1985. Total operating expenses (including the provision for credit losses, insurance benefits, and for 1986, a $10.2 million provision for restructuring) were 10.66% of average receivables compared to 11.81% in 1985, and were 500 basis points lower than 15.66% reported in 1982.

It is anticipated that the operating expense ratio in 1987 will improve due to overhead reductions related to the Corporation's restructuring plans. As noted in the "Question and Answer" section of this report, it is anticipated that operating expenses can be reduced significantly through headquarters personnel reduction, expense cutting, and elimination of functions now unnecessary due to the Company's focused strategy. We do, however, anticipate that these savings will be partially offset by temporary cost increases due to the installation of Beneficial's new on-line CRT-based data processing system throughout the loan office network. Implementation of the new system is anticipated to begin during the third quarter of 1987 and be completed by year-end 1988. This system is expected to ultimately result in lower salary costs as a percentage of average outstandings.

Pre-tax operating income as a percentage of average receivables declined to 2.56% from 2.70% a year earlier. The Corporation's net income from continuing operations return on average receivables was 1.68%, increased from 1.56% in 1985. Future profitablity will benefit significantly from interest expense savings on the net cash proceeds to be realized from the restructuring plan.

Cash Invested per Employee
(in thousands of dollars)



Consumer Finance System

Beneficial's consumer loan office network, the Consumer Finance System (CFS), maintained 930 offices in 38 states in the United States at year-end 1986, compared to 939 offices in 38 states in 1985. Outstandings in the state of California represented 34% of the total, while concentrations of outstandings also exist in the states of New York (8%), Pennsylvania (7%), Ohio (7%), Texas (5%), and Florida (4%).

In addition, the CFS has offices located in three foreign countries. The Canadian operation consists of 107 offices located throughout the country with $324.3 million in outstandings at year-end 1986. Receivables are concentrated in the provinces of Ontario and Quebec, representing 70% of Canadian outstandings. In the United Kingdom, the CFS operates Beneficial Trust and Savings, a consumer banking operation. Receivables at December 31, 1986 totalled $190.2 million, and 61 offices were maintained, concentrated in the London, Midlands, and Southeast regions. In West Germany, the CFS also operates a banking operation which consists of 8 branches and had receivables of $101.9 million at year-end 1986. Foreign receivables represented 11.1% of Beneficial's total outstandings at December 31, 1986.

During 1986, consumer receivables (including real estate secured loans, personal unsecured loans, and sales

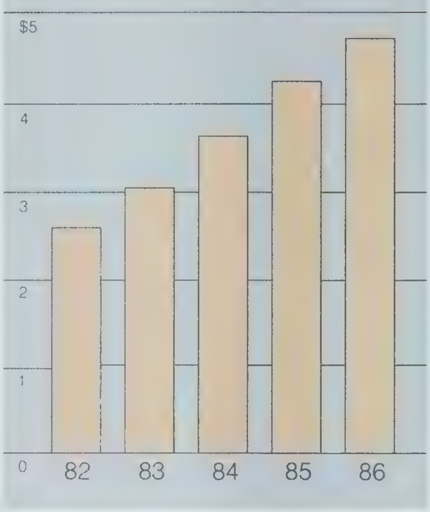
Principal of Finance Receivables

at December 31 (in millions)	1986	1985	1984	1983	1982
Real Estate Secured Loans	$3,372	$3,036	$2,836	$2,652	$2,143
Personal Unsecured Loans	1,552	1,373	1,213	1,259	1,414
Sales Finance Contracts	442	417	311	218	184
Lease Receivables	175	163	190	233	261
Total	$5,541	$4,989	$4,550	$4,362	$4,002

finance contracts) increased 12% to $5,366.1 million from the 1985 year-end level of $4,825.6 million. This gain is after giving effect to the reclassification of $29.4 million in mortgages held for resale at December 31, 1985 to other assets. In addition, $38 million of the gain is due to accruing interest income for the first time. Distribution efficiencies continue to be realized as evidenced by an increase in cash invested (net receivables) per employee to $1,058,700 from the prior year level of $998,600. Cash invested per office increased $486,300 to reach an excellent $4,703,300 at December 31, 1986.

Real estate secured loans outstanding increased 12%, or $366 million, to total $3.4 billion at year end. This loan category represents 61% of total outstandings. Excellent growth occurred in the equity credit line, a revolving real estate secured product, where outstandings were $1,269.1 million at December 31, 1986, compared to $901.6 million at the prior year end. These loans provide borrowers with a pre-approved line of credit, secured by the equity in their homes, which is accessed by the borrower via a personal check book issued by Beneficial National Bank, our commercial banking subsidiary. At year-end 1986, 87% (or $1,108.0 million) of the revolving real estate portfolio was written on a variable-interest rate basis, generally tied to prime. These typically lower-yielding floating-rate assets are funded with commercial paper borrowings, which in today's interest rate environment is at a substantially lower cost than long-term debt. The average real estate loan made in 1986 increased to $25,960 from $19,504 in 1985 and $17,339 in 1984. The average yield on real estate secured loans written during 1986 was 15.12%, compared to 16.92% in 1985.

Cash Invested per Office
(in millions of dollars)



Unsecured personal loans outstanding, including both revolving and fixed-term loans, increased $179 million, or 13%, to $1.6 billion, representing 28% of total outstandings. An excellent source of unsecured loan growth was the revolving unsecured personal loan, which increased $81.6 million to total $380.3 million at the close of the period. The average personal loan made in 1986 was $2,049, compared to $1,924 in 1985 and $1,877 in 1984. The average yield on unsecured personal loans written in 1986 was 25.14%, compared to 25.06% in the prior year.

Sales finance contracts outstanding, marketed under the name Bencharge, grew $25 million, or 6%, to reach $442 million. Receivables increased 34% and 43%, respectively, in the prior two years. The average sales finance contract written declined slightly to $829 from $861 in 1985. The average yield on sales finance contracts written during the year was 22.08%, compared to 22.07% in 1985. A wide array of sales finance products are offered ranging from small single purchase contracts to private label revolving charge accounts. The private label program, which totalled 33% of sales finance outstandings and experienced good growth in 1986, offers the merchant a specialized retailer financial services program which includes such features as credit authorization via a toll-free number, on-line credit applications, tips on improving credit sales techniques, and statistical information. Sales finance contracts are viewed as an excellent source of new customers for the CFS. In 1986, 45% of all new loan customers were generated by cross-selling sales finance customers additional loan products. Beneficial purchases sales finance contracts from "main-street" merchants concentrating on the sale of electronics, appliances, furniture, and home improvement supplies. This strategy targets the same high credit quality customers as the CFS loan office network, facilitating the cross-selling of real estate secured products and revolving unsecured personal loans.

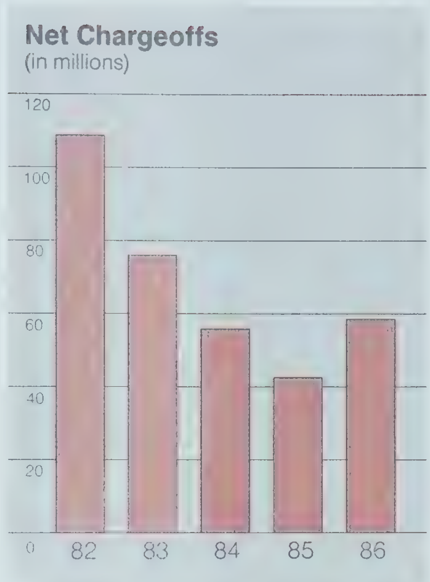
Beneficial Mortgage Corporation

Beneficial Mortgage Corporation, the Company's mortgage banking subsidiary, engages in the origination and servicing of high quality residential first mortgage loans. These loans are subsequently sold to investors. Loans are originated by Beneficial consumer loan offices for ten regional processing centers located throughout the United States. All offices in the Beneficial Consumer Finance System now originate first mortgages, except those located in the states of Texas, New Mexico, Oklahoma, Louisiana,

Pennsylvania, Maryland, Virginia, and Minnesota. During 1987, it is anticipated that these remaining offices will be included in the program. Competitively priced first mortgage loans are considered to be an important addition to the array of loan products available to consumers through the Beneficial loan office network. First mortgages enable the Corporation to cross-sell an extremely desirable product to existing customers and, importantly, to establish a long-term relationship with both new and existing customers.

In addition to the consumer finance offices, Beneficial Mortgage also originates loans through five regional branches located in Delaware, North Carolina, Florida, and New Jersey. It is anticipated that additional regional offices will be opened in 1987.

The servicing portfolio increased to total $515 million at year-end 1986. Industry volume was exceptional. In 1986, home mortgage rates reached their lowest point in eight years, motivating consumers to refinance existing high-rate or variable-rate mortgages in the current extremely favorable environment. Additionally, new home sales continued at record rates.



In 1987, market volume is expected to slow somewhat. However, Beneficial Mortgage anticipates continued increases in its servicing portfolio due to additional branch openings and increased experience in loan origination at the consumer finance loan offices. 1986 was a building year. The structure of the operation, staff, and systems were put in place. Planned volume and profitability targets were exceeded. In 1987, we will increase our ability to leverage our loan office distribution network. We believe that this operation holds much promise, contributing both to customer satisfaction and future profitability.

Credit Loss Experience — Condition of the Portfolio

Excellent credit quality continued, despite an increase in net chargeoffs. As a percentage of average receivables, net chargeoffs rose to 1.05%, or $58.5 million, from 0.84%, or $42.5 million, in 1985, but remain at a quite modest absolute level. Chargeoffs for real estate secured loans actually declined both absolutely and as a percentage of average receivables, while increased net chargeoffs were

Credit Quality Measures

(in millions)	Finance Receivables Charged Off (a)			Reserve for Credit Losses at End of Year		Delinquency
Year	Gross Amount of Receivables Charged Off	Net Chargeoffs	% of Average Gross Finance Receivables	Amount	% of Finance Receivables at End of Year (b)	Consumer Loan Receivables More Than Two Months Delinquent (c)
1986	$ 73.3	$ 58.5	1.05%	$204.9	3.70%	0.70%
1985	70.1	42.5	0.84	201.1	4.03	0.75
1984	74.0	55.7	1.12	188.9	4.15	0.74
1983	96.6	76.0	1.66	192.0	4.40	0.97
1982	122.6	108.7	2.36	181.4	4.53	1.37

(a) Less offsetting recoveries.
(b) After deducting unearned finance charges.
(c) On a recency basis. Includes real estate secured loans and personal unsecured loans.

recorded for both unsecured personal loans and sales finance contracts.

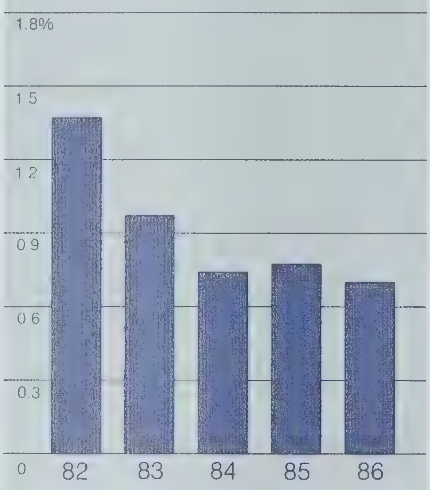
Delinquency measures remained excellent and at historical lows. At year-end 1986, consumer loan balances (including real estate secured and unsecured loans) more than two months delinquent, on a recency basis, were 0.70%, down from 0.84% at September 30 and 0.75% at December 31, 1985. Credit quality measures are presented in the chart on the preceding page for 1986 and the previous four years. Beneficial's reserve for credit losses was 3.70% of receivables at December 31, 1986, compared to 4.03% a year earlier. The ratio of reserves to annual net chargeoffs of 3.5 times, at year-end 1986, is among the most conservative in the consumer lending industry.

Beneficial Commercial Corporation

Beneficial Commercial Corporation (BCC), Beneficial's leasing subsidiary, is a significant equity participant in large tax-advantaged leveraged leasing transactions. During 1986, BCC participated in the financing of $97 million of equipment and real estate. The Company's leveraged leasing portfolio continues to be quite profitable. The existing portfolio includes transportation equipment (such as airplanes, railroad rolling stock, and ocean-going vessels), real estate, and an array of other capital equipment. Net leveraged lease outstandings were $152 million at year-end 1986, up from $124 million at December 31, 1985.

BCC continues to liquidate its less profitable commercial finance and middle-market leasing portfolios, a

Consumer Loan Delinquency (%)



market it exited in 1984. These net receivables decreased to $15 million at year-end 1986, down from $33 million in 1985.

During the year, BCC's overall outstandings increased to $167 million, compared to $157 million in 1985. Due to the overall restructuring of Beneficial Corporation, all marketing activities of BCC have been discontinued. The tax implications of the sale of the portfolio are currently being analyzed and sale of existing leases is being investigated.

Central National Life

The Central National Life Insurance Company of Omaha (CNL) is Beneficial's flagship credit insurance underwriter. Business written by CNL primarily consists of credit life (49% of premiums written), credit accident and health (30% of premiums written), and various other coverages (21% of premiums written).

CNL products are marketed through the domestic Beneficial finance office network and through its independent credit distribution system, consisting of finance companies, consumer lending operations of financial institutions, and automobile dealers and distributors. Premiums written totalled $93.9 million for 1986, compared to $144.6 million for 1985. In 1986, several blocks of annuity business were recaptured by the original ceding companies, reducing both premiums written and premium revenue. Insurance benefits were reduced by an offsetting amount. For the year, $37.7 million (40% of total) in written premiums of CNL were generated through the Beneficial loan office network. This compares to $31.0 million in 1985. This business is extremely profitable since Beneficial is not only the originator (in this case Beneficial loan office personnel) but also the underwriter through CNL. Premium writings for 1986 for the independent credit distribution network totalled $35.7 million, increased from the 1985 level of $33.7 million.

Net income for 1986 from continuing operations was $9.8 million, up from 1985 income of $8.2 million. Net income included after-tax capital gains taken in 1986 of $4.1 million, compared to a net capital loss of $0.2 million for the prior year. The decline in operating earnings (before capital gains) was primarily due to increased benefits and expenses associated with the non-Beneficial accident and health businesses. The premium revenue declined to $90.6 million in 1986 from $142.5 million in 1985 and was, as previously mentioned, due to the recapture of several blocks of annuity business by the originating insurance companies.

The cancellation of these reinsurance programs are consistent with Beneficial Corporation's focus on its core businesses.

Also, consistent with Beneficial Corporation's restructuring efforts, Central National Life will, in the future, concentrate on its most profitable business and thus will derive a significantly larger portion of its income from the generation of insurance through the Beneficial loan office network. This focus will allow product development efforts that better serve the needs of the Beneficial loan office customer and will also maximize the return on capital invested in this subsidiary. Currently, CNL is over-capitalized. In the near future, Beneficial plans to take dividends from Central National to bring capitalization to a level consistent with its premium writings. Capital will be redeployed in the consumer lending business.

Beneficial National Bank

Beneficial National Bank (BNB), based in Wilmington, Delaware, is Beneficial Corporation's full-service commercial banking subsidiary. BNB emphasizes commercial lending to small- and medium-sized businesses in its local market. The Bank has five branches in Delaware that serve both commercial and retail customers. In addition, the Bank provides significant banking services to Beneficial Corporation and its operating subsidiaries.

The Bank reported another excellent year in 1986 as net income increased 40% to $1.5 million from $1.1 million in 1985. Daily average assets increased to $136.4 million from $101.4 million in 1985. At December 31, 1986, the Bank's reserve for loan losses was 1.30% of loans. The credit quality of BNB's loan portfolio continues to be excellent. Because of its distinct nature as a commercial bank, BNB is treated as a non-consolidated subsidiary in Beneficial Corporation's financial statements. Only the Bank's net income is included, on the equity method, as part of "Other Revenue."

Beneficial's ownership of this full-service commercial bank enables the Corporation to enjoy cash management efficiencies. All disbursements through the consumer finance loan offices, as well as all checks written by customers on revolving credit lines sold through the loan office network, are drawn on BNB. Consumer Finance System office deposits are made at regional banks and are electronically transferred and concentrated at BNB on a daily basis. Additionally, a full range of banking services, such as deposit accounts, wire transfers, and check processing, are provided to the Corporation and its subsidiaries.

Real Estate Investment

Beneficial Corporation invests in real estate development primarily through its subsidiary Harbour Island Inc., the principal project in which is a mixed-use, master-planned development located in Tampa, Florida. The 177-acre island development, located just south of the city's central business district, includes 200,000 square feet of office space, a festive retail market, a 300-room hotel, luxury and moderate-income condominiums, as well as recreational facilities. In July 1986, Beneficial purchased the financial position in the development of affiliates of Lincoln Property Company, a Texas-based developer. Such affiliates were Beneficial's joint venture partners for the construction and management of the commercial elements within the first phase of the development on the island, which was completed in the summer of 1985. Affiliates of Lincoln Property are currently managing the office building and the hotel. An agreement was signed with a subsidiary of Enterprise Development Company in 1986 for management of the retail market. The long-term prospects for the island were enhanced when, in late 1986, ground was broken for a convention center across the channel, adjacent to the bridge to the island.

At year-end 1986, 91% of the office space was under lease. The retail market was 59% rented at December 31, but is in the process of being remerchandised by the Enterprise Development subsidiary, the new manager. Hotel occupancy averaged 52% for the year, nearly 13% ahead of budget. Sales of the condominiums are progressing. Seddon Cove, consisting of 72 luxury condominiums, was first available for closing in February 1986 and at year end had sold 44% of available units. Harbour Court, a 128-unit moderately-priced community, was first available for closing in December 1986. At December 31, 1986, sales of these condominiums totalled 32 units, 25% of the community. A $7 million athletic complex was completed in February 1987. Membership stood at more than 1,000 in mid-March, on target with projections.

Development of Harbour Island is anticipated to continue for approximately 15 years, but joint venturing is being explored to limit Beneficial's

investment. When completed, the island is expected to house more than 10,000 permanent residents and serve as a work center for several thousand people.

In January 1987, Beneficial Corporation announced its intention to prepare plans for the development of approximately 500 acres adjacent to its office complex located in a rapidly growing section of Northern New Jersey. It is anticipated that preparation of plans may take a year or more. When completed, plans will be presented for approval to appropriate local municipal authorities. Once approval is obtained, Beneficial plans to sell or joint venture development rights to the property.

Results From Discontinued Operations

As previously discussed, a major component of Beneficial Corporation's restructuring plan is the sale of business units not directly complementary to its core consumer finance operation. These subsidiaries, principally Beneficial National Bank USA and the Beneficial Insurance Group (excluding Central National Life), are classified as discontinued operations.

The loss from discontinued operations for 1986 totalled $279.1 million compared to restated earnings from discontinued operations of $27.9 million for 1985. The two components of the 1986 loss are an operating loss of $147.3 million and a loss on disposal of these operations of $131.8 million. The operating loss was primarily due to losses in Beneficial's property and casualty insurance operations. The loss on disposal consists of an estimated net loss from the sales of Northwestern Security Life (NSL), a small credit insurance underwriter; Beneficial Business Credit Corporation (BBCC), a small business lender; certain investment real estate; Beneficial National Bank USA (BNB USA), our credit card operation; the domestic and international property and casualty insurance operations; and Western National Life (WNL). In addition, substantial restructuring charges, including investment banking and legal fees and employee severance costs, are incorporated. Agreements to sell the property and casualty operations, BNB USA, and WNL have already been executed. The Company also sold approximately $84 million of loans constituting the major portion of the commercial loan portfolio of BBCC.

Beneficial National Bank USA

Beneficial National Bank USA, located in Wilmington, Delaware, is a FDIC-insured national consumer bank engaged in issuance of Visa and MasterCard credit cards, granting of unsecured revolving credit via check-accessed credit lines, and acceptance of consumer time deposits.

BNB USA earned $13.4 million through November 30, 1986, the date as of which Beneficial decided to discontinue this operation. Total assets were $1.2 billion at year end. Loans outstanding increased $95 million during the year. Consumer deposits rose to $432 million at year-end 1986, up from $116 million at the prior year end.

On December 30, 1986, Beneficial Corporation entered into a definitive agreement with First Chicago Corporation under which BNB USA will be sold to First Chicago for a cash price of $247 million plus earnings through the closing date, plus repayment of intercompany debt. Total cash proceeds to Beneficial Corporation will be approximately $900 million. The Company expects to complete the sale of BNB USA as soon as regulatory approvals, expected by June 30, 1987, are obtained.

The agreement has been reflected in the 1986 results.

Discontinued Insurance Operations

Beneficial's discontinued insurance operations reported a net operating loss of $156.5 million through November 30, 1986, the date as of which Beneficial decided to discontinue these operations. Included in the loss are operating results of American Centennial Insurance Company (ACIC), Western National Life Insurance Company, Northwestern Security Life, Beneficial International Insurance Company (BIIC), Beneficial's United Kingdom credit insurance underwriters, and several small property and casualty insurance companies.

The large operating loss was primarily due to $260 million in reserve strengthening added principally by ACIC during the third quarter. Loss

development trends related to the property and casualty reinsurance business booked in prior years increased markedly, requiring additional reserves.

In March 1987, Beneficial signed agreements for the sale of ACIC, its largest property and casualty insurance subsidiary, and five other insurance subsidiaries to a management-led group. Along with ACIC, companies to be sold include BIIC based in Hamilton, Bermuda, and Beneficial's two United Kingdom-based credit insurance subsidiaries, Consolidated Marine & General and Consolidated Life. Upon receiving regulatory approval, expected in the second quarter, Beneficial will be removed from the property and casualty reinsurance business.

Payment for the companies will be made primarily through a package of notes with a face amount of approximately $99 million, the realization of which is substantially dependent on the performance of the insurance companies and on the future fair market value of ACIC. In addition, Beneficial will have an option to purchase 9.9% of the equity of the strong and profitable United Kingdom companies at a nominal price. Beneficial will receive $10 million in cash at closing, the source of the funds being BIIC.

In light of the uncertainties inherent in the property and casualty reinsurance industry, a particularly conservative valuation of $6 million has been placed on the notes. However, the note to be received in connection with the sale of ACIC will provide a substantial "kicker" so that Beneficial can participate in ACIC's future success. This note is a $60 million 10 year obligation at 8% interest. Payments, which are not scheduled to begin until year three, are made only in those years when the company has increases in statutory surplus. Interest continues to accrue throughout the period. At final maturity in 10 years, the note can be settled by payment of 75% of the fair market value of ACIC. Should the value of the company be in excess of the unpaid balance of principal and interest, Beneficial would be entitled to a supplemental payment of 40% of the excess value, up to a limit of an additional $100 million. Notes received associated with the sale of the international businesses includes a $6 million 10 year note at 8% interest and a $15.6 million 10 year zero coupon note, as well as a contingent four year $17.7 million zero coupon note, the amount of which may be reduced based upon BIIC's loss development experience.

Beneficial will enter into agreements to continue to sell credit insurance, underwriten by certain of these companies, through Beneficial finance offices located in the U.S., Canada, and the U.K. for a period of five years. In addition, as part of the ACIC sale, Beneficial will make a capital contribution to ACIC in final settlement of intercompany accounts and repay indebtedness of Beneficial Corp. and its affiliates to ACIC, as well as inject an additional sum intended for reserve strengthening. As noted above, the financial impact of such contributions and repayments is fully reflected in Beneficial's financial statements for 1986.

Also in March 1987, Beneficial agreed to sell Western National Life, Beneficial's large annuity writer, for cash of $275 million to Conseco, inc., an Indiana-based insurance holding company. Closing of this transaction is anticipated some time during the third quarter, when regulatory approval is obtained. WNL had net income of $47.2 million through November 30, 1986, including $28.9 million in capital gains, with approximately half of these gains as a result of bond calls.

Marketing of Northwestern Security Life, a credit life underwriter, is in its initial stage. Through November 30, 1986 NSL reported net income of $2.6 million. Business written by NSL focuses primarily on independent credit business in the southeast, specifically automobile dealers and distributors and financial institutions.

Balance Sheet

(in millions) December 31	1986	1985
Assets		
Cash and Equivalents	$ 121.6	$ 19.7
Finance Receivables	5,837.7	5,340.5
Less Unearned Finance Charges	(297.1)	(351.6)
Principal of Finance Receivables (Note 5)	5,540.6	4,988.9
Less Reserve for Credit Losses	(204.9)	(201.2)
Insurance Policy and Claim Reserves (applicable to finance receivables)	(57.7)	(59.7)
Net Finance Receivables	5,278.0	4,728.0
Investments (Note 6)	285.8	279.6
Property and Equipment (at cost, less accumulated depreciation of $44.0 and $47.5)	138.4	114.6
Investments in and Advances to Discontinued Operations (Note 2)	1,119.6	1,489.6
Other Assets (Note 7)	330.8	270.2
Total	$7,274.2	$6,901.7
Liabilities and Shareholders' Equity		
Short-Term Debt (Note 8)		
U.S. Currency	$1,915.0	$1,093.3
Foreign Currencies	188.0	152.0
	2,103.0	1,245.3
Deposits Payable (includes employee thrift deposits)	158.1	234.1
Accounts Payable and Accrued Liabilities (Note 9)	405.0	327.2
Insurance Policy and Claim Reserves (not applicable to finance receivables)	121.2	144.5
Long-Term Debt (Note 10)	3,678.8	3,908.6
Total Liabilities	6,466.1	5,859.7
Redeemable Preferred Stock (Notes 11 and 12)	91.7	108.3
Other Preferred Stock (Note 11)	115.4	115.7
Common Stock (60.0 shares authorized; 22.9 and 22.5 shares issued and outstanding) (Note 11)	22.9	22.5
Additional Capital (Note 11)	78.8	68.4
Net Unrealized Gain (Loss) on Equity Securities (Note 6)	2.0	(1.0)
Accumulated Foreign Currency Translation Adjustments (Note 13)	(12.7)	(13.6)
Retained Earnings (Note 10)	510.0	741.7
Total	$7,274.2	$6,901.7

See Notes to Financial Statements.

Management's Discussion & Analysis of Financial Condition

(in millions)

During August 1986 the Board of Directors announced plans to evaluate a wide range of strategic alternatives with a view toward maximizing value for shareholders. After exploring alternatives, the Company decided in December to concentrate on its core consumer finance business and to sell its non-core subsidiaries. As a result of this restructuring, the Company's consumer credit card subsidiary, all insurance operations except for the credit life subsidiary, a small commercial lending subsidiary, and certain investment real estate are included in investments in and advances to discontinued operations. Although not included in discontinued operations, the Company is also considering the sale of Beneficial Commercial Corporation, a subsidiary engaged primarily in tax-advantaged leveraged leasing. The decision to sell this subsidiary is dependent, in part, on completion of an evaluation of the tax implications of the transaction. It is expected that a sale would not have a material effect on the financial statements. After the restructuring, continuing operations will consist largely of the core consumer finance business.

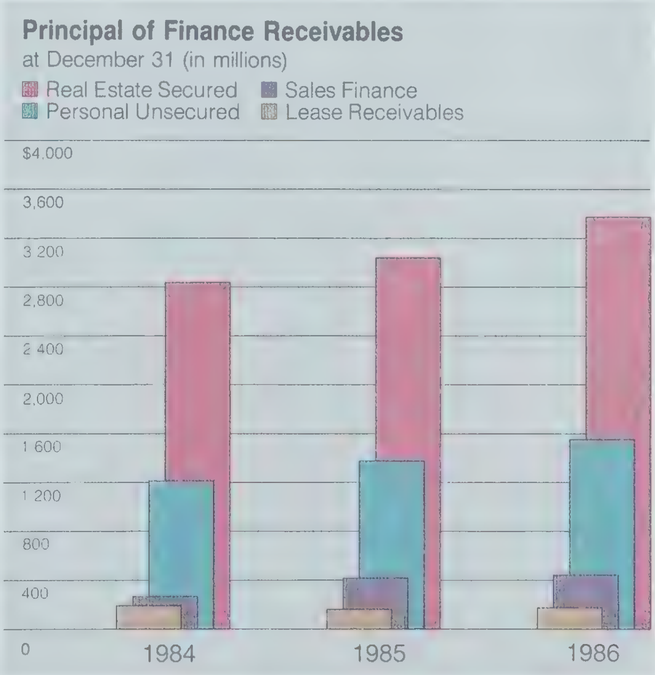
Finance receivables of the Company's consumer finance business reached $5.5 billion, a 12% gain in 1986. The largest increase ($366) was in real estate secured loans, followed by a $179 increase in personal unsecured loans. Mortgage loans held for resale, which had previously been included in finance receivables, have been reclassified to other assets. At December 31, 1986 and 1985 the receivable portfolio mix was 61% real estate secured, 28% personal unsecured, 8% sales finance contracts and 3% lease receivables.

The reserve for credit losses as a percentage of finance receivables at December 31, 1986 was 3.70% as compared to 4.03% at year-end 1985. The reserve levels are conservative by industry standards and at the end of 1986 covered the current year's net chargeoffs three and one-half times. Net chargeoffs for 1986 were $58.5 or 1.05% of average receivables, up from $42.5 or .84% of 1985 average receivables. The increased chargeoffs were due in part to a higher incidence of consumer bankruptcies. At year end, loan balances more than two months delinquent on a recency basis were 0.70%, improved from 0.84% at September 30 and 0.75% at the end of 1985.

Investments in and advances to discontinued operations decreased principally due to operating losses related to the troubled property and casualty reinsurance business and the writedown of discontinued operations to estimated net realizable value.

Short-term debt including deposits represents 38% of total debt as compared to 28% a year earlier. Short-term debt has been increasing principally to fund finance receivables and to match the Company's increasing proportion of interest-sensitive assets.

During the year ended December 31, 1986, the Company issued $322 of long-term debt with a weighted-average interest rate of 8.83%, repaid $206 of maturing debt with a weighted-average interest rate of 12.01%, and called for early redemption a total of $383 with an average rate of 9.96%. The Company also entered into an interest rate swap which effectively converted $100 of fixed-rate debt at 8.04% into variable-rate debt with interest at commercial paper rates for five years.



Statement of Changes in Financial Position

(Unaudited) Three Months Ended December 31			Years Ended December 31		
1986	1985	(in millions)	1986	1985	1984
		Cash Provided by Continuing Operations and Retained in the Business			
$ 19.1	$ 15.4	Income From Continuing Operations	$ 88.1	$ 73.3	$ 83.7
		Add (Deduct) Items Not Requiring Cash Outlay			
(27.9)	–	Increase in Insurance Reserves	(25.3)	6.5	5.9
30.0	35.3	Provision for Credit Losses (before recoveries)	79.0	81.2	81.9
(11.6)	3.9	Provision for Deferred Income Taxes	11.6	19.2	(4.1)
(1.6)	(24.4)	Other	64.2	14.9	54.1
8.0	30.2	Cash Provided by Continuing Operations	217.6	195.1	221.5
		Dividends Paid			
(2.9)	(3.5)	Preferred	(15.2)	(16.7)	(16.9)
(11.4)	(10.4)	Common	(44.9)	(43.4)	(44.0)
(6.3)	16.3		157.5	135.0	160.6
		Financing Transactions			
316.0	307.1	Increase (Decrease) in Short-Term Debt	857.7	411.2	327.3
20.7	17.6	Long-Term Debt Issued	322.2	271.1	836.8
(135.3)	(62.6)	Long-Term Debt Repaid	(588.5)	(361.9)	(720.3)
(16.6)	(16.7)	Redemption of Preferred Stock	(16.6)	(16.7)	–
38.0	25.7	Increase (Decrease) in Accounts Payable	22.7	6.4	(12.7)
(1.9)	4.0	Increase (Decrease) in Deposits Payable	(76.0)	(8.4)	12.0
220.9	275.1		521.5	301.7	443.1
		Investments in Operations			
(252.6)	(228.0)	Decrease (Increase) in Principal of Finance Receivables (before chargeoffs and foreign currency fluctuations)	(560.2)	(479.9)	(320.8)
108.8	22.7	Decrease (Increase) in Other Receivables	(103.0)	30.4	(34.6)
17.9	.9	Decrease (Increase) in Investments	(3.2)	28.9	75.7
3.1	(360.5)	Decrease (Increase) in Investments in and Advances to Discontinued Operations	90.9	(318.7)	(364.8)
–	300.4	Net Proceeds from Western Auto Sale	–	300.4	–
–	–	Proceeds From Pension Plan Restructuring	–	–	50.6
(7.7)	(5.7)	Additions to Property and Equipment (net)	(38.6)	(20.9)	(23.3)
(3.4)	(32.4)	Other	37.0	4.8	4.9
(133.9)	(302.6)		(577.1)	(455.0)	(612.3)
80.7	(11.2)	Increase (Decrease) in Cash	101.9	(18.3)	(8.6)
40.9	30.9	Cash at Beginning of Period	19.7	38.0	46.6
$ 121.6	$ 19.7	Cash at End of Period	$ 121.6	$ 19.7	$ 38.0

See Notes to Financial Statements.

Management's Discussion & Analysis of Changes in Financial Position
(in millions)

The Company's principal sources of cash generally are collections of finance receivables, proceeds from the issuance of long and short-term debt, and cash provided from operations.

As discussed in the Financial Condition section, the Company is in the process of restructuring its business. The restructuring centers on retention of the consumer finance operation and the building of a strong balance sheet to move the Company forward. To accomplish this goal, Beneficial is selling most operating units other than its consumer finance system and The Central National Life Insurance Company, a captive credit life insurance subsidiary that writes the business for the consumer finance system. The Company estimates it will receive net proceeds of about $1,100 and expects to use a significant portion to pay down debt, thereby reducing leverage for the restructured corporation. About $750 of the proceeds represents repayment of intercompany debt to Beneficial with respect to which interest has been reimbursed by the discontinued operations (see Note 2 to the financial statements). Interest savings on the remaining $350 will enhance future earnings of continuing operations.

As a percentage of average balances, monthly cash principal collections from customers increased to 4.10% in 1986 from 3.76% in 1985 due to an increase in prepayments of real estate loans as interest rates dropped.

The growing importance of variable-rate loan products originated by the consumer finance office network has resulted in the Company shifting its borrowing mix to include a greater percentage of short-term debt. Consequently, the Company's 1986 funding was weighted more towards short-term debt than in the prior year. The primary source of short-term funds for the Company is commercial paper supported by bank lines of credit and revolving credit lines. The total of all lines of credit is in excess of $2,096 with $1,572 in the form of committed multi-year revolving credit facilities. At December 31, 1986, the unused portion of all lines of credit was $1,645.

The Company also finances its operations through the issuance of long-term debt. One of the Company's financial strengths is its ability to raise long-term debt in a wide variety of domestic and international markets. The Company has strong liquidity because of regular cash collections as well as access to worldwide credit sources.

The Company's announced restructuring resulted in a downgrading of the Company's debt by Moody's Investors Service, Standard & Poor's Corporation and by Duff & Phelps, Inc. Standard and Poor's downgraded the Company's commercial paper rating from A-1 to A-2 and long-term debt rating from A to A- and Duff & Phelps downgraded the Company's commercial paper from Duff 1 to Duff 1- and long-term debt from 6 to 7. Moody's also reduced its rating of the Company's debt from P1 to P2 for commercial paper and from A3 to Baa1 and, thereafter, to Baa2, on senior term debt, due principally to the size of the 1986 losses from discontinued operations. These circumstances resulted in a marginal increase in the cost of placing the Company's commercial paper.

During 1985 another source of cash was roughly $300 received from the sale of Western Auto Supply Company and Subsidiaries. During 1983 the Company terminated its domestic retirement plan and replaced it with a restructured program providing participants with equal or increased future retirement benefits. As a result of this restructuring, excess assets were returned to the Company in 1984; the unamortized portion of these was $34.3 at December 31, 1986.

Beneficial's principal uses of cash generally are loans to customers, repayments of maturing debt, and dividends paid to shareholders.

Notes to Financial Statements
(amounts in millions)

1. Summary of Significant Accounting Principles and Practices

a) Basis of Consolidation. The consolidated financial statements include, after intercompany eliminations, the accounts of all significant subsidiaries except discontinued operations.

Certain prior period amounts have been reclassified to conform with the 1986 presentation.

b) Finance Operations. The financial statements, except for consumer finance revenue for 1985 and 1984, are prepared on the accrual basis. Finance charges and fees on interest-bearing loans are recognized as income using the interest or actuarial method, which produces constant rates of interest when applied to the outstanding loan balances at any time in the lives of the loans. Income on discounted receivables is generally recognized using the sum-of-the-digits method. Income is not accrued on any loans which are delinquent over 60 days.

Accounts known to be uncollectable are charged off. Real estate secured receivables and lease receivables are reviewed individually by management and a determination is made as to their collectability. All other receivables are automatically charged off after no payment has been made for six months. For all types of loans, collection efforts are generally continued.

c) Insurance Operations. The Company's insurance subsidiary is engaged in writing credit life and credit accident and health insurance. Premiums on credit life insurance are taken into income using the sum-of-the-digits method when the insured amounts decrease with collections, or using the straight-line method over the lives of the policies in the case of level-term contracts. Premiums on credit accident and health are generally taken into income using an average of the sum-of-the-digits and the straight-line methods. Policy reserves for credit life and credit accident and health are equal to related unearned premiums. Credit accident and health reserves are adjusted to reflect claim experience.

d) Valuation of Investments. Debt securities are carried at amortized cost; equity securities (substantially all marketable) are generally carried at market value; other investments are carried at cost. The adjustment of the carrying amount of marketable equity securities from cost to market value is not reflected in the income statement but is recorded directly in shareholders' equity through a valuation allowance.

e) Amortization of Excess Cost of Net Assets Acquired. Excess cost applicable to acquisitions is generally being amortized over 40 years.

f) Earnings Per Common Share. Earnings per common share are computed by deducting dividend requirements on preferred stocks from net income and dividing the remainder by average shares outstanding and their equivalents. None of the preferred stocks are common stock equivalents.

2. Discontinued Operations

In December 1986, the Company adopted a plan for a comprehensive restructuring of the Company. This restructuring will result in Beneficial concentrating principally on its core consumer finance business and selling non-core subsidiaries.

Subsidiaries to be sold include Beneficial National Bank USA (the Company's credit card subsidiary), Beneficial Business Credit Corporation (a subsidiary making loans to small businesses) and the companies making up the Beneficial Insurance Group except for Central National Life Insurance Company. Sale of certain investment real estate properties is also being pursued. Losses of discontinued subsidiaries through November 30, 1986 of $147.3 are included in discontinued operations in the income statement. In addition, a loss on disposal of $131.8, with no available tax offset, was incurred.

In December 1986 the Company agreed to sell Beneficial National Bank USA to First Chicago Corporation. Further, in early March 1987, the Company agreed to sell its property and casualty and international insurance companies to a management-led group and its annuity company, Western National Life, to Conseco, inc. Completion of these transactions, which are subject to regulatory approvals, is anticipated in the second or third quarter of 1987. Also in March 1987 most of Beneficial Business Credit Corporation's receivables were sold. The effect of these agreements has been included in the determination of the loss on disposal.

In 1985, the Company sold its Merchandising Division, Western Auto Supply Company and Subsidiaries, to Wesray Capital Corporation. Including the repayment of all intercompany accounts, the Company received proceeds of $343.9, comprised largely of cash ($302.7) with the remainder in Western Auto preferred stock and a note. The transaction resulted in a loss on disposal of $7.4 (after an income tax benefit of $4.3) or $.34 per share. The loss on disposal and the income from operations prior to September 30, 1985, are included in discontinued operations in the income statement.

The investments in and advances to discontinued operations are set forth on the balance sheet at estimated net realizable value.

The combined net assets related to discontinued operations are as follows:

December 31	1986	1985
Assets		
Finance Receivables (Net)	$1,193.8	$1,097.2
Investments	2,603.0	1,854.4
Other Assets	440.0	394.8
Total	4,236.8	3,346.4
Liabilities		
Deposits Payable	431.9	116.2
Insurance Policy and Claim Reserves	2,351.7	1,596.6
Other Liabilities	333.6	144.0
Total	3,117.2	1,856.8
Investments in and Advances to Discontinued Operations	1,119.6	1,489.6
Payable to Affiliates	801.9	998.4
Net Assets	$ 317.7	$ 491.2

Combined operating results related to discontinued operations are as follows:

	1986	1985	1984
Revenue	$ 967.7	$1,455.3	$1,101.9
Costs and Expenses	1,192.4	1,408.3	1,103.1
Income Taxes	(77.4)	11.7	(23.8)
Net Income (Loss)	$ (147.3)	$ 35.3	$ 22.6

Operations of the Company's various businesses are generally funded by corporate borrowings, rather than by the individual business units. Actual interest expense incurred is allocated to the business units based on their intercompany balances. During 1986, 1985, and 1984, interest expense of $84.8, $77.6 and $67.1, which was allocated to discontinued businesses, has been offset against interest expense of the related corporate borrowings of the Company.

3. Provision for Restructuring Costs

In 1986 the Company provided $10.2 for employee severance and other expenses related to the company-wide restructuring program discussed above.

4. Change in Accounting Principle

In 1986 the Company adopted the accrual basis for its consumer finance revenue to conform to practice prevalent in the financial services industry. Previously, finance charges on discounted loans were generally taken into income as earned and collected under the sum-of-the-digits method. Interest from interest-bearing direct cash loans was taken into income as collected. The cumulative effect of the change in accounting principle was $35.9 pre-tax and $19.4 after-tax. Had the change been made prior to 1986, it would not have had a material effect on the results of any of the periods presented.

5. Finance Receivables

The principal of finance receivables and maximum term in months from origination are as follows:

	Amount		Maximum Term	
December 31	1986	1985	1986	1985
Real Estate Secured Loans	$3,372	$3,036	180	180
Personal Unsecured Loans	1,552	1,373	120	120
Sales Finance Contracts	442	417	60	60
Lease Receivables	175	163	216	216
Total	$5,541	$4,989		

Scheduled contractual payments of finance receivables to be received after December 31,1986 are as follows:

	1987	1988	1989	1990	Beyond
Real Estate Secured Loans	18%	14%	13%	12%	43%
Personal Unsecured Loans	42	30	16	5	7
Sales Finance Contracts	68	18	8	3	3
Lease Receivables	6	5	3	3	83
Overall	28	19	13	9	31

The above tabulation of scheduled contractual payments is not a forecast of collections. Collections of principal of finance receivables amounted to $2,392.3 for 1986 and $1,989.1 for 1985.

The percentage of monthly cash principal collections to average balances was 4.10% for 1986 and 3.76% for 1985.

6. Investments

Investments, principally long-term investments of the Company's credit life insurance subsidiary, consist of the following:

December 31	1986		1985	
	Carrying Amount	Market Value	Carrying Amount	Market Value
Debt Securities				
Municipal	$157.6	$154.9	$161.5	$135.5
Corporate	25.6	25.7	31.8	31.4
Other	36.0	36.0	20.1	20.3
Equity Securities				
Preferred	45.6	45.6	44.4	44.4
Common	12.5	12.5	14.4	14.4
Other	8.5	8.5	7.4	7.4
Total	$285.8	$283.2	$279.6	$253.4

At December 31, 1986, the portfolio of equity securities, having a cost of $56.9, reflects unrealized gains of $3.5 and unrealized losses of $1.5. The cost of investments sold is determined on the specific cost identification basis.

7. Other Assets

December 31	1986	1985
Mortgage Loans Held for Resale	$ 97.7	$ –
Accrued Interest	22.0	25.5
Excess Cost of Net Assets Acquired	25.3	26.0
Prepaid Expenses	11.2	16.0
Property Acquired by Foreclosure	12.0	18.4
Insurance Premiums Receivable	9.5	10.0
Unamortized Insurance Policy Acquisition Costs	34.5	34.5
Unamortized Long-Term Debt Expense	16.0	19.9
Unamortized Software Costs	18.2	11.1
Other	84.4	108.8
Total	$330.8	$270.2

8. Short-Term Debt

December 31	1986	1985
Bank Borrowings	$ 449.6	$ 190.5
Commercial Paper	1,653.4	1,054.8
Total	$2,103.0	$1,245.3

The unused portion of bank lines of credit at December 31, 1986 and 1985 is $1,645.6 and $1,183.9. Generally, domestic lines of credit provide for a fee of ¼% per annum on the lines.

Average interest rates (including the costs of maintaining lines of credit) on borrowings outstanding at year end are as follows:

	1986	1985	1984
Bank Borrowings	8.66%	9.94%	11.01%
Commercial Paper	6.89	8.23	9.38

The weighted average annual interest rates (including the costs of maintaining lines of credit) and additional data for short-term debt are as follows:

	1986	1985	1984
Maximum Amount at Any Month End	$2,114.3	$1,310.0	$841.3
Daily Average Amount	1,622.7	965.9	632.4
Average Interest Rates on Borrowings During the Year			
U.S. Dollar	7.05%	8.69%	10.72%
Foreign Currency	9.87	11.26	12.50
Overall	7.40	9.17	11.33

The Company effectively fixed the rate of interest paid on $117.0 of short-term borrowings at an average melded rate of 11.54% by entering into interest exchange agreements having remaining terms ranging from four to seven years.

9. Accounts Payable and Accrued Liabilities

December 31	1986	1985
Accounts Payable	$ 97.1	$ 66.0
Accrued and Deferred Compensation	39.0	29.2
Accrued Interest	110.7	119.7
Income Taxes Payable	34.1	14.3
Deferred Taxes Payable	61.6	29.0
Dealer Reserves	14.9	16.3
Unamortized Proceeds from Pension Plan Restructuring	34.3	39.4
Other	13.3	13.3
Total	$405.0	$327.2

10. Long-Term Debt and Restrictions on Additional Capital and Retained Earnings

Long-term debt outstanding is as follows:

December 31	1986	1985
By Currency		
United States	$3,562.1	$3,748.1
British	–	75.7
Canadian	96.8	76.3
West German	73.6	70.1
Unamortized Discount	(53.7)	(61.6)
Total	$3,678.8	$3,908.6
By Maturity		
1986	$ –	$ 442.4
1987	493.0	491.3
1988	235.5	427.4
1989	442.6	272.4
1990	416.7	347.6
1991	363.2	259.6
1992-1996	1,083.5	1,031.5
1997-2001	163.5	163.5
2002-2006	234.5	234.5
2007-2013	300.0	300.0
Unamortized Discount	(53.7)	(61.6)
Total	$3,678.8	$3,908.6
Subordinated Debt Included Above	$ 50.0	$ 50.0
Weighted Average Annual Interest Rate on Debt Outstanding at End of Year	9.93%	10.21%

Long-term debt at December 31, 1986 includes $212.3 for which the holder may elect payment prior to maturity. Such debt is shown above in the earliest year it could become payable.

Certain indentures and agreements relating to the Company's long-term debt contain covenants restricting payment of dividends (other than stock dividends) and the purchase and retirement of the Company's capital stock. At December 31, 1986 the amount of all unrestricted additional capital and retained earnings, under the most restrictive of these covenants, is approximately $65.0.

11. Capital Stock

The number of shares of capital stock is as follows:

	December 31	
Issued and Outstanding	**1986**	1985
Preferred—no par value (issuable in series). Authorized, 500,000 9.25% Series Redeemable Preferred—$1,000 stated value.	**91,668**	108,334
Preferred—$1 par value Authorized, 2,500,000	–	–
5% Cumulative Preferred—$50 par value. Authorized, 585,730	**407,718(a**	407,718(a
$5.50 Dividend Cumulative Convertible Preferred—no par value—$20 stated value (each share convertible into 4.5 shares of Common; maximum liquidation value, $4,619,600 and $5,791,700). Authorized, 1,164,077	**46,196**	57,917
$4.50 Dividend Cumulative Preferred—$100 par value. Authorized, 103,976	**103,976**	103,976
$4.30 Dividend Cumulative Preferred—no par value—$100 stated value. Authorized, 1,069,204	**836,585**	836,585
Common—$1 par value. Authorized, 60,000,000	**22,948,929(b**	22,536,928(b
After deducting treasury shares		
a) 5% Cumulative Preferred	**178,012**	178,012
b) Common	**4,226,214**	4,585,478

At December 31, 1986, a total of 264,298 shares of Common Stock were reserved for conversion of the $5.50 Preferred and the 10.5% Convertible Instalment Notes. During the year, 359,274 treasury shares were issued upon conversion of the Notes, thereby increasing Additional Capital by $8.6.

12. Redeemable Preferred Stock

Dividends on the 9.25% Series Redeemable Preferred Stock, which are cumulative, are payable quarterly at $23.125 per share. Annually through November 15, 1999, the Company is required to redeem 8,333 shares of the stock through a sinking fund at $1,000 per share. Sinking fund payments are cumulative. The Company may, at its option, increase the sinking fund payment by 8,333 shares annually up to an aggregate of 43,750 shares. The Company redeemed 16,666 shares in each of the years ended December 31, 1986 and December 31, 1985. The Company has the right to redeem the stock beginning November 15, 1989 at an initial redemption price of $1,043.82 per share, declining ratably thereafter to $1,000 per share. Unless dividend and sinking fund payments on this stock are current, the Company may not pay dividends or make other distributions or purchase, redeem, or retire any issues of stock junior to this issue. Upon the arrearage of six quarterly dividends on any series of the Preferred Stock, the holders of the 9.25% Series Preferred Stock with the holders of other series of the Preferred Stock voting as a class would be entitled to elect two members of the Board of Directors.

13. Accumulated Foreign Currency Translation Adjustments

Assets and liabilities in foreign currencies are translated at the market rate at each balance sheet date. Foreign operating results are translated at the average market rate for each period covered by the statement of income.

An analysis of changes in accumulated foreign currency translation adjustments follows:

December 31	1986	1985
Balance at Beginning of Year	$(13.6)	$(18.4)
Adjustments for the Year	(4.9)	(3.1)
Related Income Taxes	5.8	5.7
Sales of Subsidiaries (net of taxes)	–	2.2
Balance at End of Year	$(12.7)	$(13.6)

14. Other Expenses

December 31	1986	1985	1984
Occupancy	$ 52.3	$ 47.3	$ 48.4
Advertising	24.9	20.7	15.9
Commissions	31.6	36.4	28.0
Telephone	16.6	15.2	15.0
Depreciation	14.8	14.2	10.9
Travel	11.6	9.8	9.6
Printing	10.6	9.8	10.1
Postage	7.7	7.0	6.4
Other	66.5	64.3	62.8
Total	$236.6	$224.7	$207.1

15. Employee Retirement Plans

During 1983 the Company terminated its domestic retirement plan and replaced it with a restructured program providing the participants with equal or increased future retirement benefits. The restructured program covers substantially all employees in the United States. All participants in the terminated plan were 100% vested, and annuity contracts were purchased to provide benefits. Excess assets were returned to the Company; the unamortized portion of these was $34.3 at December 31, 1986.

Net pension expense for domestic operations was $6.6, $1.8, and $1.1 for 1986, 1985 and 1984. The Company has made annual contributions to the plans at least equal to the amounts accrued for retirement expense. Pension expense for the Company's foreign subsidiaries is immaterial.

Accumulated plan benefits and plan net assets for the Company's domestic retirement plan are:

January 1	1986	1985
Actuarial Present Value of Accumulated Plan Benefits		
Vested	$ 8.3	$ 3.4
Nonvested	6.0	7.2
Total Actuarial Present Value of Accumulated Plan Benefits	$14.3	$10.6
Net Assets Available for Benefits	$ 7.2	$ 5.2

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9% in each of the years above.

16. Income Taxes

The Company files a consolidated U.S. federal income tax return with all eligible subsidiaries, including eligible discontinued operations. Income taxes, whether payable currently or in the future, are provided on reported earnings.

The provision for income taxes is comprised of:

	1986	1985	1984
Current			
U.S.	$13.6	$15.4	$27.7
Foreign	14.8	9.0	7.5
Total	28.4	24.4	35.2
Deferred			
U.S.	14.1	18.9	(6.3)
Foreign	(2.5)	.3	2.2
Total	11.6	19.2	(4.1)
Investment Tax Credit Deferred	.4	1.9	2.0
State and Local	5.6	7.9	5.4
Total Provision for Income Taxes	$46.0	$53.4	$38.5

Deferred income taxes result from timing differences in the recognition of income and expense for tax and financial statement purposes and relate to:

	1986	1985	1984
Differences Between Cash and Accrual Basis	$ 5.8	$ 8.0	$ 1.7
Insurance Benefits Provided	.6	(2.0)	.5
Leasing Transactions	14.7	14.9	8.5
Tax Depreciation in Excess of Book Depreciation	4.1	2.0	–
Tax Credits Applied to Deferred Taxes	–	–	9.0
Recomputation of Insurance Reserves	–	–	(7.9)
Deferred Retirement Plan Credits	2.3	2.3	(20.4)
Restructuring Costs	(4.3)	–	–
Recomputation of Leveraged Leases	(15.1)	–	–
Other	3.5	(6.0)	4.5
Total Provision for Deferred Income Taxes	$ 11.6	$19.2	$ (4.1)

A reconciliation of the provision for income taxes at the statutory U.S. income tax rate to the tax provision as reported follows:

	1986	1985	1984
Statutory U.S. Tax Rate	46.0%	46.0%	46.0%
Increase (Decrease) Resulting from:			
Differences Between U.S. Rate and Effective Foreign Tax Rates	(.9)	(5.2)	(.9)
Non-Taxable Investment Income	(3.1)	(2.3)	(2.9)
Foreign Tax Credit	1.9	–	(3.6)
Investment Tax Credit	(.3)	(1.4)	(1.8)
State and Local Income Taxes	2.0	2.8	2.3
Recomputation of Leveraged Leases	(11.3)	–	–
Recomputation of Insurance Reserves	–	–	(6.4)
Other	–	2.2	(1.2)
Effective Tax Rate	34.3%	42.1%	31.5%

In accordance with requirements of the Financial Accounting Standards Board, the Company recast its leveraged leases upon the enactment of the Tax Reform Act of 1986, resulting in reduced revenue of $4.4 and reduced taxes of $15.1. At December 31, 1986, an operating loss carryforward of approximately $105 is available to offset 1987 taxable income for financial reporting purposes. U.S. income taxes have not been provided at December 31, 1986 on $29.2 of undistributed earnings of foreign subsidiaries, which are expected to be permanently invested in foreign countries, and on $53.9 of undistributed earnings of life insurance subsidiaries accumulated as policyholder's surplus under tax laws in effect prior to 1984.

17. Geographic Information

Operations of the Company are primarily in the United States. Foreign operations are conducted through subsidiaries in Canada, the United Kingdom and West Germany. In 1985 the Company sold operations in New Zealand and Ireland with finance receivables totaling $32.7, and in 1984 the Company sold operations in Australia and Japan with finance receivables totaling $216.3. These operations were sold for approximately net book value.

Net liabilities relating to operations outside the United States were approximately $127 and $160 at December 31, 1986 and 1985.

Data by geographic area follows:

	Revenue			Income Before Income Taxes			Identifiable Assets	
	1986	1985	1984	**1986**	1985	1984	**1986**	1985
Geographic Area								
United States	**$1,019.6**	$1,015.3	$ 930.1	**$114.6**	$110.7	$101.2	**$6,618.7**	$6,411.9
Foreign	**191.6**	198.1	269.9	**19.5**	16.0	21.0	**1,227.5**	1,351.2
Intersegment Eliminations	**(77.1)**	(95.2)	(96.8)	**–**	–	–	**(572.0)**	(861.4)
Total	**$1,134.1**	$1,118.2	$1,103.2	**$134.1**	$126.7	$122.2	**$7,274.2**	$6,901.7

18. Leases

The Company's consumer finance system operates from premises under leases generally having an original term of five years with a renewal option for a like term. The Company also leases an office complex with a primary term expiring in 2010 and renewal options totaling forty-seven years. Data processing equipment lease terms range from two to five years and are generally renewable. The minimum rental commitments under noncancelable operating leases at December 31, 1986 are as follows:

1987	$ 33.5
1988	35.2
1989	32.1
1990	29.3
1991	26.4
1992–1996	123.8
1997–2011	370.3
Total	$650.6

19. Commitments and Contingent Liabilities

At December 31, 1986, Beneficial was contingently liable under agreements relating to the financing and development of a condominium project in Texas, entered into by Wasco Properties, Inc., a discontinued operation. Pursuant to such agreements, and subject to certain terms and conditions, the subsidiary would be obligated to a maximum of $85.0 plus accrued interest to purchase condominium units which at the time had not been sold to third parties by the project developer or others should certain events occur.

The Company and certain of its directors are defendants in two lawsuits. One action, commenced by Robert M. Deutschman in the U.S. District Court for the District of Delaware on December 19, 1986 against the Company and directors Caspersen and Halvorsen, alleges that the defendants' disclosures with respect to reserves required for the Company's property and casualty subsidiaries were misleading and seeks unspecified money damages. The other action, commenced in the Delaware Chancery Court on December 23, 1986 by Edward P. Sumers against the Company and directors Caspersen, Bower, Cannada, Farris, Gilliam, Halvorsen, Hillier, Holm, Muller, Ross, Tucker, Wachter, Watts and Weis, alleges that the defendant directors breached their fiduciary duty in not accepting purported proposals to purchase certain assets of the Company for the equivalent of $75 per share and for failing to disclose such purported proposals to the Company's stockholders until such purported proposals were no longer available. Sumers seeks unspecified money damages. The Company is of the opinion that both suits are totally without merit and motions to dismiss the complaints have been filed in each action.

In August 1986 the Board of Directors approved a value-created bonus plan which provides for payments to certain key executives of the Company equal to the aggregate of 7% of the increase in the price of the Company's common stock above $70 per share upon the earlier of the sale or major restructuring of the Company or the end of 1987.

20. Selected Financial Data

Selected unaudited financial data required by the Securities and Exchange Commission are included in the Eleven-Year Summary—Supplemental Information, pages 32 and 33 and in the Data by Calendar Quarter—Supplemental Information, page 34.

Accountants' Opinion

The Board of Directors and Shareholders
of Beneficial Corporation

We have examined the balance sheets of Beneficial Corporation and Consolidated Subsidiaries as of December 31, 1986 and 1985 and the related statements of income and retained earnings and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Beneficial Acceptance Corporation (a consolidated subsidiary), which statements reflect revenue of $10.2 and $14.7 million for the years ended December 31, 1985 and 1984, respectively. We also did not examine the financial statements of the Merchandising Division, the equity in net assets and net income of which are included in discontinued operations. The financial statements of the aforementioned company and division were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for such company and division is based solely upon the reports of the other auditors.

In our opinion, based upon our examinations and the reports of other auditors referred to above, such statements present fairly the financial position of Beneficial Corporation and Consolidated Subsidiaries at December 31, 1986 and 1985 and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1986 in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in 1986 in the method of accounting for interest income on finance receivables as described in Note 4 to the financial statements.

DELOITTE HASKINS & SELLS

Morristown, New Jersey
February 26, 1987, except for the third paragraph of
Note 2 as to which the date is March 13, 1987.

Eleven-Year Summary

Supplemental Information (amounts in millions, except where noted)	1986	1985
During The Year		
Net Income (Loss)		
Income From Continuing Operations	$ 88.1	73.3
Income (Loss) From Discontinued Operations	$ (279.1)	27.9
Cumulative Effect of Accounting Change	$ 19.4	–
Net Income (Loss)	$ (171.6)	101.2
Earnings (Loss) Per Common Share (dollars)		
Continuing Operations	$ 3.25	2.56
Discontinued Operations	$ (12.41)	1.26
Cumulative Effect of Accounting Change	$ .86	–
Net Income (Loss)	$ (8.30)	3.82
Average Number of Common Shares	22.5	22.1
Dividends Paid Per Common Share (dollars)	$ 2.00	2.00
Revenue	$1,134.1	1,118.2
Interest	$ 442.6	436.9
Provision for Credit Losses (less recoveries)	$ 64.2	53.4
Total Expenses	$1,000.0	991.5
Income Before Income Taxes	$ 134.1	126.7
% of Monthly Cash Principal Collections to Average Balances	4.10	3.76
% of Finance Receivables Charged Off (less recoveries) to Average Balances	1.05	.84
At Year End		
Principal of Finance Receivables	$5,540.6	4,988.9
Reserve for Credit Losses	$ 204.9	201.2
Total Assets	$7,274.2	6,901.8
Short-Term Debt (bank notes and commercial paper)	$2,103.0	1,245.3
Long-Term Debt	$3,678.8	3,908.6
Redeemable Preferred Stock	$ 91.7	108.3
Shareholders' Equity (including redeemable preferred stock)	$ 808.1	1,042.0
% of Reserve for Credit Losses to Principal of Finance Receivables	3.70	4.03
% of Finance Receivables with Payments More Than Two Months Delinquent — Loans Only (based upon recency of payment)	.70	.75
Number of Accounts	1.7	1.6
Average Balance — Loans only (dollars)	$ 5,087	4,488
Number of Holders of Common Shares	19,200	23,700
Number of Employees	6,800	6,700
Number of Offices	1,106	1,114

1984	1983	1982	1981	1980	1979	1978	1977	1976
83.7	63.5	42.0	8.5	59.3	68.9	71.8	63.4	54.1
22.6	42.1	(73.4)	(16.2)	34.5	31.4	26.5	22.3	46.3
–	–	–	–	–	–	–	–	–
106.3	105.6	(31.4)	(7.7)	93.8	100.3	98.3	85.7	100.4
3.00	2.08	1.11	(.38)	1.89	2.80	2.99	2.62	2.26
1.02	1.88	(3.28)	(.73)	1.55	1.41	1.20	1.02	2.26
–	–	–	–	–	–	–	–	–
4.02	3.96	(2.17)	(1.11)	3.44	4.21	4.19	3.64	4.52
22.2	22.4	22.4	22.3	22.3	22.2	22.1	21.8	20.4
2.00	2.00	2.00	2.00	2.00	1.95	1.70	1.60	1.4375
1,103.2	1,071.4	1,146.1	1,197.6	1,117.9	877.9	685.4	595.2	502.0
436.7	388.6	433.9	471.6	415.8	264.6	179.9	140.6	111.8
63.6	88.8	108.8	102.1	91.5	88.8	70.2	65.7	60.4
981.0	975.0	1,075.0	1,154.1	1,023.3	767.8	553.1	471.8	395.7
122.2	96.4	71.1	43.5	94.6	110.1	130.1	123.4	101.6
3.34	3.79	3.62	3.60	3.98	4.32	4.41	4.33	4.35
1.12	1.66	2.36	1.98	2.13	1.60	1.56	1.74	2.04
4,549.5	4,362.1	4,002.1	4,323.6	4,161.3	4,164.2	2,950.5	2,523.2	2,085.0
188.9	192.0	181.4	189.9	183.7	195.5	147.2	126.3	106.3
6,459.7	5,896.1	5,588.4	6,017.4	5,747.3	5,594.1	3,739.9	3,233.0	2,686.0
834.1	506.8	432.0	1,042.3	746.7	926.8	478.9	375.3	267.4
3,967.1	3,841.7	3,558.9	3,357.3	3,336.0	3,324.7	2,210.0	1,861.7	1,492.9
125.0	125.0	125.0	125.0	125.0	103.0	–	–	–
992.8	953.0	910.3	1,003.5	1,079.7	1,029.1	886.5	835.1	791.2
4.15	4.40	4.53	4.39	4.41	4.69	4.99	5.01	5.10
.74	.97	1.37	1.62	1.57	1.26	1.15	1.08	1.19
1.5	1.5	1.7	2.2	2.9	3.5	2.7	2.4	2.1
4,069	3,741	2,889	2,366	1,802	1,508	1,333	1,289	1,186
25,700	27,400	27,700	29,400	31,200	32,000	33,200	32,700	31,700
6,300	6,400	6,700	8,900	10,400	10,800	9,500	9,000	8,200
1,151	1,343	1,440	1,649	2,100	1,942	1,837	1,811	1,697

Data by Calendar Quarter

Supplemental Information			1986		
(in millions, except per share figures)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenue	$ 295.8	$ 293.4	$ 289.4	$ 255.5	$1,134.1
Income Before Income Taxes	$ 35.3	$ 33.5	$ 47.9	$ 17.4	$ 134.1
Net Income (Loss)					
Income (Loss) from Continuing Operations	$ 20.5	$ 19.3	$ 30.0	$ 18.3	$ 88.1
Income (Loss) from Discontinued Operations	9.0	9.1	(155.8)	(141.4)	(279.1)
Cumulative Effect of Accounting Change	–	–	–	19.4	19.4
Total	$ 29.5	$ 28.4	$(125.8)	$ (103.7)	$ (171.6)
Earnings (Loss) Per Common Share					
Continuing Operations	$ .75	$ .69	$ 1.16	$ .65	$ 3.25
Discontinued Operations	.39	.39	(6.96)	(6.23)	(12.41)
Cumulative Effect of Accounting Change	–	–	–	.86	.86
Total	$ 1.14	$ 1.08	$ (5.80)	$ (4.72)	$ (8.30)
Common Stock					
High Sales Price	$ 55.25	$ 54.75	$ 78.00	$ 78.50	
Low Sales Price	47.125	45.00	44.50	52.75	
Dividends Paid Per Share	.50	.50	.50	.50	$ 2.00

			1985		
(in millions, except per share figures)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenue	$ 272.9	$ 283.4	$ 278.0	$ 283.9	$1,118.2
Income Before Income Taxes	$ 31.5	$ 35.8	$ 36.3	$ 23.1	$ 126.7
Net Income					
Income from Continuing Operations	$ 17.9	$ 19.1	$ 20.9	$ 15.4	$ 73.3
Income (Loss) from Discontinued Operations	9.2	9.5	(.2)	9.4	27.9
Total	$ 27.1	$ 28.6	$ 20.7	$ 24.8	$ 101.2
Earnings Per Common Share					
Continuing Operations	$ .62	$ .67	$ .76	$ .51	$ 2.56
Discontinued Operations	.42	.43	(.01)	.42	1.26
Total	$ 1.04	$ 1.10	$ .75	$ .93	$ 3.82
Common Stock					
High Sales Price	$ 37.50	$ 45.50	$ 45.00	$ 49.50	
Low Sales Price	31.625	36.375	37.00	38.125	
Dividends Paid Per Share	.50	.50	.50	.50	$ 2.00

Officers and Directors

Beneficial Corporation

Finn M. W. Caspersen
Chairman of the
Board of Directors and
Chief Executive Officer

Gerald L. Holm
Vice Chairman

David J. Farris
Member of the
Office of the President

Andrew C. Halvorsen
Member of the
Office of the President and
Chief Financial Officer

William H. H. Ely, Jr.
Senior Vice President and
Treasurer

James H. Gilliam, Jr.
Senior Vice President and
General Counsel

Robert R. Meyer
Senior Vice President and
Controller

Bruce A. Olster
Senior Vice President —
Audit/Tax

Maryann W. Schneider
Senior Vice President —
Planning and Administration

Kenneth J. Kircher
Vice President and Secretary

Richard F. White
Vice President — Field Audit

Beneficial Management Corporation

David J. Farris
President and Chief
Executive Officer,
Chairman of the
Executive Committee

Senior Vice Presidents

Robert M. Grohol
Operating

Charles E. Hance
General Counsel

J. Edward Kerwan
Data Processing

Richard P. Kotz
Marketing

Thomas P. McGough
Financial Controls

W. James Murphy
Operating

David B. Ward
Government Relations

Group Presidents

James L. Arpin
Midwest Group

Pierre E. Bashe
Northwest Group

John France
United Kingdom Group

James L. Frans
Southern Group

Peter J. Gimino, Jr.
Southwest Group

J. C. Heywood
North Central Group

Forrest B. Kinney
Gulf Coast Group

Francis X. Mohan
Northeast Group

Manfred E. Niebisch
Canadian Group

Kendall D. Kelley
Mid-Atlantic Group

Beneficial National Bank

James W. Wright
President and
Chief Executive Officer

Beneficial Mortgage Corporation

Rolf F. Eriksen
Chairman of the Board and
Chief Executive Officer

Benevest Group Inc.

Ronald S. Belcher
President

The Central National Life Insurance Company

Daniel R. O'Brien
President and
Chief Executive Officer

Beneficial Savings Bank, FSB

Kenneth A. Reyes
President and
Chief Executive Officer

Board of Directors

Charles W. Bower [3]
Retired; former Senior Vice President and Treasurer of Beneficial Corporation

Robert C. Cannada [3,4,7]
Attorney at Law, Butler, Snow, O'Mara, Stevens & Cannada, Jackson, Mississippi

Finn M. W. Caspersen [1,2,5]
Chairman of the Board of Directors and Chief Executive Officer

David J. Farris [1,5,6]
Member of the Office of the President; Chief Executive Officer, Beneficial Management Corporation, a subsidiary

James H. Gilliam, Jr. [6]
Senior Vice President and General Counsel

Andrew C. Halvorsen [1,2,5]
Member of the Office of the President and Chief Financial Officer

J. Robert Hillier [4,5,6]
Architect and businessman, The Hillier Group, Inc. Princeton, New Jersey

Gerald L. Holm [1,2,5]
Vice Chairman

Steven Muller [5,6]
President, Johns Hopkins University, Baltimore, Maryland

Susan Julia Ross [3,5]
Attorney at Law, Natelson and Ross, Taos, New Mexico

Robert A. Tucker [1,2]
Retired; former Member of the Office of the President and Chief Financial Officer of Beneficial Corporation

E. Norman Veasey [3,6,7]
Attorney at Law, Richards, Layton & Finger, Wilmington, Delaware

Susan M. Wachter [3,6]
Associate Professor of Finance
The Wharton School
University of Pennsylvania
Philadelphia, Pennsylvania

Charles H. Watts, II [1,3,5,7]
General Director, educational and business consultant, McLean, Virginia

K. Martin Worthy [4,7]
Attorney at Law, Hamel & Park, Washington, D.C.

Directors Emeriti

Cecil M. Benadom

Elbert N. Carvel

Freda R. Caspersen

George R. Evans

J. Thomas Gurney

Modie J. Spiegel

Arthur T. Ward

Ralph B. Williams

(1) Member of Executive Committee (Finn M. W. Caspersen, Chairman)
(2) Member of Finance Committee (Andrew C. Halvorsen, Chairman)
(3) Member of Audit Committee (Charles H. Watts, II, Chairman)
(4) Member of Compensation Committee (K. Martin Worthy, Chairman)
(5) Member of Strategic Planning and Evaluation Committee (J. Robert Hillier, Chairman)
(6) Member of Management Development and Marketing Committee (Susan M. Wachter, Chairman)
(7) Member of Corporate Policy Committee (E. Norman Veasey, Chairman)

Corporate Information

Beneficial Corporation is a direct issuer of commercial paper to institutional and other corporate investors. Notes are sold in amounts of $100,000 or more, for maturities of 5 to 270 days, at competitive market rates. Daily rates for Beneficial commercial paper are posted nationally on the TELERATE SYSTEM next to the symbol "BNL." For further information call (201) 781-3614.

Media representatives and others seeking general information about the Company should contact Ms. Deborah Veasey at (201) 781-3882.

Security analysts, portfolio managers, and other investors seeking financial information about the Company should contact Mr. William H. H. Ely at (201) 781-3609 or Mr. John R. Engelhardt at (201) 781-3613.

Stockholders seeking information about the dividend reinvestment service, securities transfer matters, and dividend payments should contact Mr. Kenneth J. Kircher at (302) 798-7102.

Copies of the company's 10-K report to the SEC are available upon request from Mr. Kenneth J. Kircher, Beneficial Corporation, P.O. Box 911, Wilmington, Delaware 19899.

The Annual Meeting of the shareholders of Beneficial Corporation will be held on Wednesday, May 20, 1987 at 11:00 a.m. in the Company's headquarters, Beneficial Building, 1100 Carr Road, Wilmington, Delaware.

Morgan Shareholder Services Trust Company, New York is both registrar and transfer agent for all classes of Beneficial Corporation common and preferred stock.

Beneficial